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DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. E.M. Manakine (Russian Federation)

Addendum

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115. The representative of Argentina said that, in the present critical period in the evolution of the international trading system, certain developing countries could be said to have progressed half-way in the process of adjustment and restructuring while some trading partners were taking countermeasures that impeded that process. He drew attention to three categories of developing countries - those which had nearly or fully completed their adjustment policies; those which had adapted their competitive behaviour to the new challenges of the international economy; and the least developed countries which in many instances were in a critical situation. All three categories were either facing an adverse international climate or were affected by the current tensions in the multilateral trading system. Changing that climate was a prerequisite for their development while international support was essential to the success of the adjustment processes under way.

116. He added that, on the basis of experience, regional integration tended to consolidate trading flows given a favourable political will. The various integration schemes in place should be viewed as processes aiming at the consolidation of a multilateral trading system with clearly defined rules and a reduction in the present levels of protection. The first step in that direction would be a rapid and balanced outcome to the Uruguay Round.

117. He referred to the informal discussions held as part of the Board session in which it had been suggested that developing countries should be compensated for opportunities lost as a result of protectionism and other trade practices. If it were possible to quantify such losses, it might be feasible to make a claim for such compensation and expect it to be met. There was no reason, however, for such a situation to arise if it was recognized that an efficient exporter exploiting a competitive advantage had the right to expect not to be expelled from the international market as a result.

118. With regard to the proposed early-warning mechanism, he thought that the Board should continue to elaborate ideas on the subject, which need not take the form of an ad hoc working group. The idea should, however, be borne in mind as it was fully consonant with paragraph 52 of the Cartagena Commitment. The secretariat might perhaps carry out studies and market analyses leading to possible conflict scenarios and, under certain hypotheses, authorize the secretariat to bring the relevant facts to the attention of the Board at an executive session.

119. The representative of Uruguay said that, while factors of internal policy were important, the economic environment also influenced trade performance and was particularly important for countries with small markets whose exports were concentrated in a few products only. Market opening measures in developed countries would permit such countries to develop their full export potential, for instance in the agricultural and textile sectors. The support concerned should come from the elimination of protectionist practices or trade-distorting practices such as export subsidies, and not merely from ad hoc solutions through concessional measures. In that connection, he said that trade preferences did not provide a solution to the problem of market access; the solution lay rather in the conclusion of the Uruguay Round.

120. He added that multilateralism and regionalism were compatible objectives, as was borne out by the fact that the economies of the four Mercosur countries were now more open than five years ago, one of the main objectives of that regional trading arrangement being to promote a better integration of their economies into international markets. He stressed that the aim of integration had not prevented those countries from opening their economies to the outside world. A process of that kind implied a very profound adjustment for his country in the industrial and agricultural sectors.

121. With regard to the proposal for an early-warning system, it was necessary to bear in mind that it related to situations involving commercial flows and not situations of non-fulfilment of legal obligations as in GATT. As a first step, the secretariat could undertake studies on possible trade disputes, but he did not see the need for an ad hoc group of experts on the subject.

122. The representative of Peru prefaced his remarks by invoking the concept of "paradigm shift", which assumed a firm and long-lasting belief in a certain "truth", even against growing empirical evidence contradicting that "truth", until a general recognition suddenly emerged that the "truth" was actually the very opposite of what had been claimed. He related this concept to the developing countries' experience up to the late 1970s in that the "truth" for these countries had been a development process based on State intervention to promote an industrialization of process that would allow for import substitution. That paradigm had then been superseded by the new doctrine of the market as the best regulator of economic activity.

123. While many developing countries had chosen to liberalize and to open their markets as the best means to accelerate the development process, this

shift had actually benefited only a very small number of them. Others were still struggling in the hope that their reforms would yield the benefits they expected and confirm the validity of the new "truth". That was why the secretariat report emphasized the need to promote mutual interests and a sense of equity in the international economy as reasons to increase external support to the developing countries. He doubted, however, whether the idea of cooperation or external assistance was essential in that context. The objective should rather be the genuine and real application of market rules in every sector of international trade, particularly those of interest to developing countries. It was not consistent that the market should be freely competitive for products in which a group of developed countries had a comparative advantage, but that restrictions should be enforced in other sectors where the developing countries were best equipped to export. He emphasized that equity was not synonymous with help or support. The level of cooperation required for developing countries could be rightly determined only when a genuine market system was fully in operation. Until that stage was reached, developing countries would easily find empirical evidence to confirm the "truth" that liberalization was not responding to the expectations aroused at the end of the 1970s.

124. He disagreed with the idea that the increase in developing countries' exports was due to liberalization in importing markets; instead, export expansion in the developing countries was largely due to the dynamism of their economies, despite the numerous protectionist and restrictive policies deployed. He also rejected the idea that unilateral and temporary mechanisms such as the GSP were the solution to the trade problems of developing countries, adding, as an example, that the removal of a single non-tariff measure - the Multi-fibre Arrangement - would bring the developing countries' benefits almost equivalent to total world imports under the GSP. Finally, he expressed concern about disquieting signs in the developed countries that the paradigm of a free market was being changed, and wondered if the time had not come to shift to a new "truth" that would require the participation of countries in the development and regulation of international trading markets. If such were the case, he added, the shift should consider the way to increase the participation of developing countries in international trade.

125. The representative of Canada said the secretariat document (TD/B/39(2)/3) was a valuable contribution to the overall analysis of the kinds of trade

policy reforms needed in developing countries. It correctly described the context in which the wider economic programmes had taken place and highlighted in a useful way the sorts of measures which many developing countries had undertaken with regard to trade liberalization. However, he did not share the overall assessment of the secretariat, which appeared to argue that only a relatively small number of developing countries had benefited from the change towards more outward-oriented economies over the past decade. There existed an abundance of economic analysis demonstrating quite the opposite. Also, the overall balance of the paper was distorted. Far more attention was paid to the "requirements for external support" than to the need for appropriate national policies. While external support was unquestionably an important component in trade policy reform, it could only build on the foundation of workable, sustainable national policies. He suggested that much greater attention be paid to those policies in future. It would also be useful to attempt more detailed country studies, while bearing in mind the need not to duplicate the work that had already been done in other international bodies such as the GATT Trade Policy Review Mechanism.

126. It went without saying that a successful conclusion of the Uruguay Round would be a major benefit to both developed and developing countries, since it would herald a more stable and predictable multilaterally trading system, and improved market access for developing countries. The OECD, for instance, had estimated that lowered levels of protection stemming from a Uruguay Round agreement could amount to over $90 billion in annual income gains for developing countries.

127. The secretariat had been correct to highlight the growing importance of the trade/environment interlinkage, but had not adequately shown how trade-related environmental measures could represent possible areas of conflict. Certain situations were causing conflict, for example: (a) where measures were taken against imports produced by methods deemed environmentally harmful, (b) where trade measures were used to compel countries to change their environmental policies, and (c) where differing environmental standards might have implications for international competitiveness. The document also left the impression that the GATT was doing nothing to deal with those issues. It was in fact dealing with them through the Working Group of Environmental Measures and International Trade, and the Committee on Trade and Development.

128. With regard to the discussion on investments, he fully shared the view that a solid investment performance was a key element for the long-run success of trade policy reform. In view of the growing competition for investment funds among both developed and developing countries, the major focus should be on providing a more liberal framework and eliminating impediments to new and existing investments.

129. With regard to the proposal to set up a working group to develop an early-warning mechanism, he pointed out that various existing Standing Committees and ad hoc working groups had adequate scope to serve in an early-warning role across a range of trade issues. The GATT itself, both through its formal dispute settlement mechanism, which was to be greatly strengthened at the conclusion of the Uruguay Round, and through its Trade Policy Review Mechanism, also played a key role in identifying areas of concern and in resolving trade disputes when they inevitably arose.

130. The representative of Mexico said that his country's experience, although not necessarily valid for other countries, could be regarded as a reference point. Trade liberalization, which was essential to achieve microeconomic efficiency and consolidate macroeconomic stability, should be undertaken once certain conditions had been attained. There was little to gain by opening up trade too slowly. An accelerated liberalization process would ensure its irreversibility and lead enterprises to introduce the changes required and to increase productivity in a short time span.

131. He stated that entering into prior negotiations with the enterprise sector on the measure to be taken would be tantamount to abandoning trade liberalization, and emphasized that gradualness mattered less than credibility. When entrepreneurs were convinced that there was no chance of reversing the trade liberalization process, they would concentrate their efforts on adjusting to new production patterns. A trade liberalization programme that aimed at credibility should therefore be carried out quickly, if possible, even before the scheduled time-limit. However, when trade liberalization was undertaken, it was necessary to ensure that enterprises were in a healthy financial state so as to avoid the closure of structurally viable companies. There should also be adequate under-valuation of the exchange rate which would afford reasonable protection; a relatively high level of foreign exchange reserves in central banks; and a relatively low level of aggregate demand so as to mitigate any temporary surge in imports.

The experience of many countries, including his own, had shown that arbitrage between world and domestic prices became more effective towards the end of the stabilization process, when financial speculation and the degree of under-valuation of the exchange rate had decreased.

132. He stated that there were two additional factors that were essential for the success of a trade liberalization process: clear rules against unfair trade practices and special export promotion programmes. The establishment of adequate institutions and rules for an open trade regime was a high priority. Trade liberalization was useless without modernization, for instance of the customs system which, for many developing countries, was a weak point. He emphasized the importance of external support which, in the case of the solution of Mexico's debt problem, had been a necessary prerequisite that had made the reform process possible. He doubted whether any economic reform process could be achieved without a successful solution of the external debt problem.

133. Finally, he supported the idea of setting up an intergovernmental group aimed at studying possible measures to prevent trade conflicts, as there were justifiable reasons for the establishment of an early-warning system in the economic field.

134. The representative of the United States said she agreed with a number of previous speakers that the most positive action the international community could take at the present time to move toward trade liberalization and increased trade and prosperity would be to conclude the Uruguay Round. She would revert to the subject when item 4 was taken up for discussion.

135. Regarding the secretariat recommendation in paragraph 105 of document TD/B/39(2)/3 that the Intergovernmental Group of Experts on Restrictive Business Practices (IGE) should be asked to explore the connection between trade law and competition policy and the possibility of multilateral discipline for such laws and policy, she considered the proposed task was outside the mandate of the IGE as established in the Set of Principles and Rules. She added that such work at the present time would unnecessarily duplicate the study which the OECD was currently making on trade law and competition policy. While not all members of UNCTAD were members of OECD she thought it would nevertheless be far better for UNCTAD to await the outcome of the OECD study, which was nearing completion, before beginning work on the same issue.

136. Turning to the secretariat proposal for the establishment of an ad hoc early-warning group under the auspices of the Board, she expressed interest in the view put forward by the representative of Switzerland on the subject, which could be further explored, for instance, during future executive sessions of the Board. On the basis of the information contained in the secretariat report, she wondered whether, in view of the present budget constraints, there was really a need to set up a new body and whether many of the issues that might arise in relation to early-warning system could not be taken up in the Standing Committees, or in the Board itself. The work of other bodies, such as the Trade Policy Review Mechanism of GATT, could also be looked at in that connection.

137. The representative of Bangladesh, commenting on the statement made by the representative of the International Monetary Fund, said that she had been factually correct in her observations that the reformed measures of developing countries had produced mixed results. Less stringent IMF conditionalities would have produced much better results. Now that the reforms were visible in every part of the world, some changes in IMF practices were perhaps overdue. Their conditionalities should have a more human face. He, therefore, requested the IMF representative to throw some light on the prospects of reform in such practices.

138. In reply, the representative of the International Monetary Fund stated that the question of reform within the IMF was discussed in the Executive Board on an almost daily basis and developing country representatives were of course active participants in those debates. Conditionality was really the underpinning which provided the credibility and the predictability of the changes in policy and in policy designs that reforming members of the Fund had decided on, and as the representative of Mexico had pointed out it was precisely such underpinning that was crucially important in the success of reform measures.

139. The Director of the International Trade Division thanked delegations for their valuable comments on the secretariat document, which would serve as a guide to the secretariat in its future work. Reviewing the background to the document, he recalled that the issue of trade policy reforms had been highlighted in Cartagena and, since then, the secretariat had made two detailed studies concerned entirely with internal policy reforms and the lessons to be drawn therefrom based on UNCTAD's own research into individual

country experiences and the literature on the subject. In October 1992 the secretariat had also prepared a paper which again looked at the lessons and experiences of the developing countries' trade policy reforms. The report before the Committee took the two papers as a point of departure and gave further evidence on a sample of 14 countries. Consequently the bulk of the report dealt with the other aspect of the issue before the Committee, which was the external support required for trade policy reforms. He added that the two earlier papers had brought out many of the issues which came up in the informal discussions, i.e. the role of macroeconomic stabilization, the importance of timing and sequencing, the importance of the credibility of reforms, the importance of effective markets, the importance of coordinating economic policy and the importance of policy instruments.

140. In answer to a point raised by more than one delegation that the secretariat report did not address the implications of simultaneous reform, especially for the terms of trade of commodity exports, he said that the report had clearly specified that it would deal exclusively with market access issues and not with issues relating to commodities, development finance and debt relief. The Committee on Commodities was a more appropriate forum in which to look at the question of terms of trade as a whole.

141. With regard to the proposal to establish an early-warning system, the intention was not to set up a working group immediately but rather a mechanism to come into being after the series of working groups created at Cartagena had come to an end. It would serve as a complement to the work of GATT, as a number of delegations had suggested. The idea was to develop some leading economic indicators along the lines of the work carried out by the National Bureau of Economic Research in looking at future business cycles. Their work was in fact an early-warning approach to microeconomic policies and an approach of a similar sort could perhaps be devised for problems likely to arise in the area of trade. The idea of early warning had been raised at Cartagena and therefore merited further clarification on the part of the secretariat. He stressed that the exercise involved an "ex ante" rather than an "ex post" approach, which was more applicable for the GATT dispute settlement mechanism.